



DEFENCE HOLDINGS

In defence of returns

Sophie Smith takes a closer look at how retirement savings are being mobilised in uncertain times, with recent geopolitical tensions sparking a shift in attitudes as security tops the agenda

The investment policies of European pension funds are undergoing a shift, and what was once a near-taboo is increasingly being reframed as both strategically responsible and financially prudent. Once hesitant to engage with the defence sector due to ethical and reputational concerns, many funds are now reassessing their stance in light of Russia's invasion of Ukraine, the Gaza conflict, NATO expansion, and mounting government pressure to strengthen Europe's industrial and security resilience.

From taboo to strategic imperative

From Finland to Denmark, and even in the UK, pension schemes are beginning to see defence and dual-use investments not as a contradiction to responsible investing, but as a means of safeguarding the stability on which responsible investment frameworks depend.

Recent geopolitical shocks have helped to widen the conversation, as AkademikerPension CIO, Anders Schelde, says: "The war in Ukraine has made it clear that Europe's security can no longer be taken for granted. Under democratic control and within the boundaries of international law, we believe that directing investments towards European defence is not contrary to responsible investing, but a part of

safeguarding the freedoms and stability on which responsible investing itself depends."

Mercer European head of investments, Eimear Walsh, agrees, explaining that, "as many more European countries and their governments respond to developments in Europe, we are seeing a greater focus on boosting defence spending and collaboration", and this is being reflected in pension schemes' exclusion policies.

Doubling down in Denmark

Nowhere is this shift more visible than in Denmark. The Danish pensions industry has doubled its exposure to defence investments, according to figures from Insurance & Pension Denmark (I&P), growing from around DKK 9 billion in early 2023 to nearly DKK 19 billion by April 2024.

I&P deputy director, Tom Vile Jensen, highlights this as a "clear shift", driven by rapidly changing geopolitical realities and government engagement, including a proposed DKK 50 billion defence fund.

And Jensen points out that this realignment extends beyond listed equities, explaining that funds are focusing on both direct holdings in publicly listed defence companies and infrastructure partnerships, such as public-private projects.



Indeed, a consortium of Danish pension investors – including Industriens Pension, AkademikerPension, P+, and AP Pension – is already backing a public-private partnership to build new military barracks.

It is not only supportive of defence aims, as Industriens Pension described it as a “socially critical task,” using lower-CO₂ construction methods.

Jensen also highlights the broader social benefits of such investments, stating that “the Danish government’s strong commitment, highlighted by a new defence fund and active invitations to the pension industry to engage, has reinforced the idea that defence-related investments can align with both societal needs and long-term financial returns”.

Still, Denmark’s relatively small domestic defence sector means much of this capital flows abroad, particularly into US-listed firms.

“That stems from the relatively small size of Denmark’s defence industry and lack of listed domestic firms,” Jensen explains. “As a result, pension funds are keenly monitoring the development of Denmark’s defence-industrial strategy, hoping to see nascent opportunities emerge closer to home.”

There is still a geographical focus, however, with some funds choosing to extend their definition of local to cover Europe more broadly. Schelde says that AkademikerPension “deliberately focuses on European companies” as it aligns the purpose of supporting Europe’s ability to defend itself.

Similar approaches have been seen in Finland, as Varma senior vice president for sustainability and communication, Hanna Kaskela, explains that although Varma does not explicitly favour domestic investments, it does apply strict geographic criteria.

“Varma has excluded companies with a confirmed connection to controversial weapons and whose headquarters are not located in NATO, Japan, South Korea, Australia, New Zealand (Indo Pacific Four) or Switzerland,” she explains.

Finland: NATO membership and strategic resilience

Despite these exclusions, Varma, one of Finland’s largest pension insurers, has still been upping its interest in defence assets, having updated its responsible investment principles multiple times since 2022 in response to enable this.

“These changes were motivated, in part, by the emergence of new business opportunities in areas such as defence and dual-use technologies like drones, cybersecurity, and communications systems,” Kaskela explains.

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Much like its Danish peers, Varma now sees defence investment as contributing both to security and economic resilience.

However, safeguards remain. In particular, Kaskela underscores the importance of openness to ensure success, stating: “Externally, heightened public debate, media scrutiny and political signals have increased the need for transparency in defence-related investment decisions.”

Schelde echoes this, explaining that whilst some members may have reservations, this is why the fund has been fully transparent about the change, sharing its investment lists, and maintaining a clear, consistent exclusion criteria.

And the balance between transparency, accountability, and security has become central to Europe’s pension debate, with an increasing focus on member desires as a result.

Holding up a mirror: member views in focus

In the UK, for instance, the Avon Pension Fund is taking a cautious yet inclusive approach. Before making a final decision, it is polling around 20,000 members – roughly a fifth of its base – on whether to continue investing in aerospace and defence.

The survey reflects a commitment to democratic engagement in contested sectors, as the fund’s leadership stressed that the consultation is designed to ensure diverse demographic representation and to build legitimacy for future decisions.

Whilst not as bold as some of the action seen in Denmark, the news nonetheless signals that across Europe, pension capital is navigating the defence question in ways that reflect national context and saver expectations.

Ethical lines redrawn – not erased

The embrace of defence investments is not without limits though. “Diverse member opinions mean some pension providers proceed cautiously,” Jensen says. “This is where dialogue with savers – clarifying investment goals and the rationale behind new defence exposure – is crucial to maintain trust and alignment. Ethically, there are still issues with defence

investments, which are important to be aware of and to disclose to the savers.”

And across Europe, certain exclusions remain firmly in place, as a WTW spokesperson confirms that controversial weapons remains an “almost universal exclusion”.

Specific ethical dilemmas have also persisted, particularly on conflicts that have been the centre of more controversy, such as the ongoing crisis in Gaza.

In Norway, Norges Bank Investment Management (NBIM) – manager of the Government Pension Fund Global – faced criticism over its Israeli investments, before it joined a growing number of pension providers choosing to exclude such holdings, despite positive financial returns *[read more on page 9]*.

It is not only Norway where such trends are being seen, as Jensen argues that “pension funds are now responding to powerful external signals – from government policy platforms to EU strategic calls – that underscore defence as a vital societal domain”.

But Denmark’s pension leaders insist that, more broadly, defence investment is not an abandonment of responsible principles but a reframing of them.

Jensen points out that the European Commission has also explicitly stated that sustainability regulations shouldn’t impede defence investment.

As Jensen puts it: “The emerging security landscape... has reframed defence from a niche, controversial sector to a strategically important and responsible one.”

It is not just attitudes to defence investments that are changing, but the definition of the asset class itself, as defence holdings are quickly expanding beyond traditional equities. Pension funds are targeting infrastructure projects – such as Denmark’s super-ports, logistics hubs, and military facilities – that serve both civilian and defence purposes.

Cybersecurity, software, and communications systems are also attracting attention, as they represent dual-use sectors critical to both industrial resilience and national security.

Indeed, Walsh says that “defence is digitalising and we have seen an emergence of private equity and venture capital (PE/VC) firms raising dedicated funds to invest in aerospace and defence which also includes areas such as cybersecurity and robotics”.

“In Q1 2025 alone, S&P reported that global PE/

VC investment in aerospace and defence hit USD 4.27 billion, nearly matching all of 2024’s USD 4.31 billion,” he says. “This nascent trend warrants a word of caution though – it is a relatively new and emerging sector where established track records and proven ability to manage risk will be limited.”

But broader reforms may be needed; industry leaders have recently called for more structured investment platforms tailored to pension funds.

“To strengthen access, it would be beneficial to develop structured instruments or platforms tailored to pension funds – such as funds focused on dual-use technologies, dedicated debt or equity vehicles for infrastructure projects, or co-investment frameworks in public-private defence initiatives,” Jensen says. “We also have to open up for more investments and development of non-listed defence companies.”

“As national and EU frameworks evolve, and with instruments like the proposed DKK 50 billion defence fund, there is growing scope for dual-use and infrastructure investments via public-private partnerships,” he explains. “This can include co-financing technology development, building essential defence infrastructure, and supporting dual-use innovation – all contributing to a more self-sufficient and robust European defence ecosystem.”

Regardless of future reforms, Kaskela agrees that pension insurance companies like Varma and other investors are poised to play a growing role in bolstering industrial resilience and dual-use technology development.

“By updating their responsible investment frameworks, they can support defence capabilities while maintaining ethical standards,” she explains.

“This includes investing in companies that contribute to national security, innovation, and conflict prevention. Of course they need also to meet strict sustainability and legal requirements.”

Even those holding back on investing directly in defence may want to pay attention to the trends in this asset class, particularly from a European macro-economic perspective; Walsh says the likely increase in defence spending will impact sovereign finances, and in time, potentially put pressure on credit ratings and borrowing costs. “Investors in euro sovereign bonds will need to keep this under review,” he says.

The shift is clear: European pension funds are no longer standing apart from defence and are instead choosing to become strategic partners.

But the challenge ahead is to sustain momentum without sacrificing transparency, accountability, or ethical credibility.

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